

Message Text

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C O N F I D E N T I A L SEOUL 6659

E.O. 11652: GDS

TAGS: BEXP, KS

SUBJECT: ROK ELECTRONIC SWITCHING PROJECT

REF: SEOUL 5306

1. FURTHER TO REFTEL, A WELL-INFORMED EPB SOURCE INFORMS US THAT KIST EVALUATED ONLY THREE OF SIX PROPOSALS (ONE OF TWO GTE OPTIONS, ONE JAPANESE PROPOSAL, AS THE OTHER WAS VERY MUCH THE SAME, AND EITHER ITT OR THE SIEMAN PROPOSAL, HE WAS NOT SURE WHICH), AS THERE WAS INSUFFICIENT TIME TO DO ALL.

2. CABLE AND WIRELESS LTD., THE ENGLISH FIRM WHICH HAD BEEN USED BY THE ROCG IN A SIMILAR CAPACITY, WAS CONTRACTED TO HELP IN THE EVALUATION. OUR EPB SOURCE INDICATED GENERAL SATISFACTION WITH THE FIRM'S PERFORMANCE AND IMPLIED THAT THE ROKG WAS NO LONGER LOOKING FOR OTHER OUTSIDE HELP. WE BELIEVE CABLE AND WIRELESS GOT THE JOB BECAUSE IT WAS WILLING TO MEET THE VERY SHORT DEADLINE IMPOSED BY KIST.

3. THE PRELIMINARY STUDY ATTEMPTED TO PUT THE THREE FIRMS' PROPOSALS ON A COMMON BASIS FOR PURPOSES OF COMPARISON. PURELY IN PRICE TERMS, THE JAPANESE OFFER WAS BY JCAR THE LOWEST. HOWEVER, THE COUNCIL OF ECONOMIC MINISTERS HAS AGREED TO STUDY THE FULL SET OF PROPOSALS FURTHER, TO SEE WHETHER THE HIGHER COST ONES HAVE OFFSETTING ADVANTAGES. THAT STUDY IS SCHEDULED FOR COMPLETION BY YEAR-END AND WILL REQUIRE FILING OF ADDITIONAL INFORMATION BY THE BIDDERS.

4. IN ANY CASE, THE PRELIMINARY STUDY SHOWS THAT ESS IS MUCH
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CHEAPER THAN CURRENTLY PURCHASED DESIGNS EVEN IF THE HIGHEST

COST OPTION WERE CHOSEN. THIS CONCLUSION IS, INCIDENTALLY, CONTRARY TO WHAT THE PRESENT SUPPLIER, A GOLDSTAR-SIEMAN JOINT VENTURE, LEAKED TO THE PRESS SEVERAL WEEKS AGO.

5. THE MINISTRY OF COMMUNICATION (MOC) CONTINUES TO PLAY A PARTISAN ROLE IN THE EVALUATION. IT WAS PREVIOUSLY VERY CLOSE TO GOLDSTAR AND, EVEN AFTER THE NEW MINISTER WAS APPOINTED, APPEARS JEALOUS OF ITS PREROGATIVES AND GRUDGING IN ITS WILLINGNESS TO CONSIDER ALTERNATIVE APPROACHES. IT CURRENTLY ADVOCATES THE FORMATION OF A NEW ALL-KOREAN ESS MANUFACTURING COMPANY AND THE PURCHASE OF TECHNICAL DATA FROM ABROAD AND WOULD PRECLUDE CONSIDERATION OF ANY JOINT VENTURE PROPOSALS. THIS POSITION HAS BEEN SUPPORTED BY GOLDSTAR, WE SURMISE, IN THE BELIEF THAT IT MIGHT FREEZE OUT ALL BUT SIEMANS, OR WOULD AT LEAST PROVIDE GOLDSTAR THE OPPORTUNITY TO PARTICIPATE, IF NOT CONTROL, THE NEW KOREAN FIRM. GTE INITIALLY WAS PREPARED TO CONSIDER EITHER A JOINT VENTURE OR LICENSING, BUT RECENTLY HAS TOLD US INFORMALLY THAT THEY PROBABLY WOULD NOT BE WILLING TO LICENSE. WE HAVE SUGGESTED THAT THEY NOT MAKE A FINAL DECISION NOW, SINCE IT MIGHT PREEMPT FURTHER CONSIDERATION OF THEIR OFFER.

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